

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE ELECTRONIC APPLICATION OF)	
MEADE COUNTY RURAL ELECTRIC)	
COOPERATIVE CORPORATION)	
FOR A GENERAL ADJUSTMENT OF)	Case No. 2020-00131
RATES PURSUANT TO STREAMLINED)	
PROCEDURE PILOT PROGRAM)	
ESTABLISHED IN CASE NO. 2018-00407)	

**MEADE COUNTY RURAL ELECTRIC COOPERATIVE
CORPORATION'S COMMENTS IN SUPPORT OF APPLICATION**

Comes now Meade County Rural Electric Cooperative Corporation (“Meade County”), by counsel, pursuant to the Commission’s June 18, 2020 Procedural Order, and in further support of its Application requesting a general adjustment of its existing rates, respectfully offers the following comments:

Meade County is a not-for-profit, member-owned, rural electric distribution cooperative organized under KRS Chapter 279 that provides retail electric service to approximately 30,000 members in six counties.¹ Approximately seventy-six (76%) percent of Meade County’s total energy usage is consumed by residential customers.² Using a historical, twelve-month test period ending on December 31, 2019, Meade County seeks approval to increase its annual revenues by \$1,404,525 or 2.60%, to achieve an Operating Times Interest Earned Ratio (“OTIER”) of 1.85.³

¹ See Application, p. 1.

² See Anna Swanson Testimony (“Swanson Testimony”), p. 5 (June 5, 2020).

³ See Application, p. 2.

This revenue requirement is proposed to be allocated by increasing the monthly residential Rate 1 customer charge from \$17.16 to \$21.09. This equates to a \$0.13 per day increase to Meade County's daily customer charge, adjusting the fee from \$0.572 per day to \$0.703 per day.⁴ The increase would result in a 3.52% increase for Rate 1 customers and no increase for all other customer classes.⁵ A Rate 1 customer using an average number of kWh a month would see their bill increase by \$4.22 per month.⁶ Each of these rate design proposals is consistent with the Cost of Service Study (“COSS”) prepared by Mr. John Wolfram.⁷

This is the first requested increase in Meade County’s base rates since 2013.⁸ Meade County's margins from energy sales have declined, while purchased power and other costs of conducting business have increased. Despite close management supervision to minimize cost-escalation, overall expenses in almost every aspect of Meade County's operation have increased. In order to address Meade County's current undesirable financial condition, the cooperative's Board of Directors, in conjunction with its management, has determined that a general adjustment of retail rates is necessary.⁹ Moreover, Meade County’s existing rates do not align with its cost of providing service, which makes its margins more susceptible to volatility. Without an adjustment of its rates, Meade County’s undesirable and insufficient rate structure will continue to worsen, thereby placing at risk not only the cooperative’s contractual relationships with its lenders, but also the safe and reliable service its members deserve and expect.

⁴ See John Wolfram Testimony (“Wolfram Testimony”), p. 25 (June 5, 2020)

⁵ See Application, Exhibit 10.

⁶ See Application, Exhibit 11.

⁷ See Application, Exhibit JW-3 through JW-8.

⁸ See Application, p. 2.

⁹ See *id.*

Meade County's management has done an excellent job in managing costs. Examples include:

- When Meade County made a prepayment to the R & S Plan in 2013, the current contribution requirement immediately decreased approximately 25% of the billing rate. For 2019, the prepayment resulted in a discounted contribution rate of 25.46% as opposed to the full rate of 34.23%, saving approximately \$126,000. National Rural Electric Cooperative Association (“NRECA”) expects that making the prepayment will continue to benefit from the differential value of the reduction for at least 10-15 years.¹⁰
- Meade County moved retiree Medicare insurance to a separate plan through Humana in April 2019, resulting in lower premiums and savings for the retirees and the Cooperative. In 2019, Meade County saved a prorated amount of \$16,571 or an annualized savings of approximately \$22,000.¹¹
- Recently, Meade County has attained lower interest rates by repricing several short-term variable rate maturities at longer repayment timelines to avoid interest rate volatility in the future. This restructuring has lowered Meade County's overall borrowing cost by reducing the Cooperative's blended cost of debt from 3.25% to 2.93%.¹²
- Meade County has taken sensible cost control measures to keep distribution O&M expenses low as they represent one of the greatest total costs of electric service

¹⁰ See Meade County Response to Staff-DR-01-006.

¹¹ See *id.*

¹² See Meade County Responses to Staff-DR-01-007 and AG-DR-01-002.

(17.2 percent) for the Cooperative. Holding O&M costs to a meager 6 percent increase over seven years shows the significant effort by Meade County to contain expenses while continuing to provide safe, reliable and affordable electric service, as demonstrated in the most recent Key Ratio Trend Analysis.¹³

- Existing employees hired July 31, 2002 or beyond are no longer eligible for the R&S plan and the post-retirement insurance coverage, whereas new hires employed after July 31, 2002 can only participate in a defined contribution plan, hence a 401(k) Program. This freeze on the traditional pension plan was a long-term cost-saving strategy to lower the Cooperative's retirement costs as individuals phase out of the R&S program throughout time by shifting employees to a more affordable and stable retirement plan.¹⁴
- Meade County began requiring employees to make contributions towards monthly insurance premiums; employees contribute 50 percent for dependent health care premium costs, 100 percent for dental dependent coverage, and 50 percent for any type of vision coverage;¹⁵ and
- Meade County utilizes an independent, third-party consultant to provide insight and guidance as to what are fair wage scales.¹⁶ This measure validates that our organization maintains equitable wage and benefit packages for our workforce which is located in the greater Louisville metropolitan area. Therefore, to preserve our human capital within this competitive market environment we enact a careful

¹³ See Martin Littrel Testimony (“Littrel Testimony”), p. 12 (June 5, 2020).

¹⁴ See Littrel Testimony, p. 11.

¹⁵ See Swanson Testimony, pp. 8-9.

¹⁶ See Swanson Testimony, p. 9.

balance of fair wage and benefit programs to our employees while upholding our fiduciary responsibilities to our member-owners. Additionally, Meade County's executive compensation is fair and reasonable especially when compared to similar-sized electric utilities. It is unreasonable to suggest that salary increases are "unjustified during this time of unprecedented pandemic" when the salary increases received were from the 2019 test year and prior years which predate the pandemic. The referenced salary increases were prudent, in part because the Board of Directors and management could not have possibly known at the time that there would be an unprecedented pandemic in the future. Based on the recent economic development success of Meade County and the cost savings achieved since Meade County's previous rate case, these performance accomplishments warrant justified merit increases such as the ones provided to employees. Rewarding strategies that either increase load growth or reduce costs to the member-owners should be encouraged as these actions offset revenues that would otherwise be captured by existing customers through higher electric bills. As a result, these merit encouragements have either enhanced the cooperative's revenues or lowered its costs which ultimately benefit the member-owners by either increasing the Member Rate Stability Mechanism or through reducing electric bills.

- Meade County's financial metrics have generally deteriorated. In 2013, Meade County's margins were \$1,900,024; at year-end 2019, Meade County's margins were only \$491,205.¹⁷ This stems from gradually increasing costs, including labor. Meade County's expenditures on human capital have been

¹⁷ See Littrel Testimony, p. 5.

reasonable and appropriate. Meade County's wages and salary scale is based upon the work of an independent, third-party expert who analyzes data at the local and regional data level for both utilities and non-utilities alike.¹⁸ That analysis is then used in relation to employees' job performance and relative experience to determine an appropriate level of compensation. Employee salaries are limited to the maximum salary of the scale.¹⁹ To realize savings for the Cooperative for health insurance expense, Meade County required employees to pay more in out-of-pocket costs.

Consistent with the Commission's streamlined rate case guidelines and general ratemaking principles, Meade County made adjustments to the test year expense to account for: (1) the fuel adjustment clause; (2) the environmental surcharge; (3) the member rate stability mechanism; (4) the non-smelter non-FAC PPA; (5) rate case expense; (6) year-end customer normalization; (7) depreciation expense normalization; (8) advertising and donations; (9) Director's expenses; (10) life insurance premiums; (11) retirement plan contributions; (12) health, dental and vision insurance premiums, and (13) wages and salaries.²⁰

In allocating the proposed rate increase, Meade County asked Mr. Wolfram to prepare a COSS using standardized procedures whereby: (1) costs were functionalized to the major functional groups; (2) costs were classified as energy-related, demand-related, or customer-related; and then (3) costs were allocated to the rate classes.²¹ Mr. Wolfram's detailed analysis²²

¹⁸ See Meade County Response to Staff-DR-01-004, Confidential Exhibit.

¹⁹ See Swanson Testimony, p. 9.

²⁰ See Wolfram Testimony, Exhibit JW-2, Schedules 1.01 through 1.13.

²¹ See Wolfram Testimony, p. 16.

²² The method supporting Mr. Wolfram's analysis is described in-depth in his testimony. See Wolfram Testimony, pp. 15-22.

demonstrated that Meade County is not recovering its costs from the Residential Rate 1 customer class while it is over-recovering its costs with regard to all other customer classes. Residential is the only class with a negative rate of return and with negative margins in the adjusted test year.²³ As explained by Mr. Wolfram: (1) the COSS demonstrates a need to increase the rates for Rate 1 customers; and (2) the COSS supports a fixed monthly Customer Charge equivalent of \$31.09 for Rate 1 while the current charge is only equivalent to \$17.16 per month.²⁴

Meade County's proposed rate increase and rate design are fair, just and reasonable. Meade County has reasonably delayed seeking an increase in its rates, but it has not waited too long, such that its financial condition is in a crisis. Likewise, Meade County seeks to align its rates so that those customer classes which cause the cooperative to incur costs are the same customer classes that proportionally pay those costs.²⁵ While some inter-class subsidization continues,²⁶ the proposed rate design reduces the amount of the subsidization in accordance with the Commission's preference towards gradualism.²⁷ Moreover, Meade County understands that its low-income customers typically consume more energy per month than other residential customers.²⁸ Thus, the increase in the Customer Charge for the Rate 1 customers means that Meade County's low-income customers will experience a slightly lower base rate increase than the overall average residential base rate increase of 3.1 percent.²⁹ Finally, the proposed increase to the Residential Customer Charge is consistent with the type of rate design changes that are appropriate for consideration--

²³ See Meade County's Response to AG-DR-01-001.

²⁴ See Wolfram Testimony, p. 25.

²⁵ See *id.*, pg. 26.

²⁶ See Meade County's Response to Staff-DR-01-014.

²⁷ See Wolfram Testimony, pp. 27-28.

²⁸ See Meade County's Responses to Staff-DR-01-012 and AG-DR-01-019.

²⁹ See Meade County's Response to AG-DR-01-019.

and indeed have already been approved by the Commission--in streamlined rate cases; rate revisions of this nature are not reserved for traditional, non-streamlined rate filings.³⁰

While it is possible that the Attorney General may object to the request to increase the Rate 1 equivalent Customer Charge to \$21.09 per month, the fact remains that the COSS supports a monthly equivalent Charge of over \$30.00.³¹ Moreover, the proposed increase closes only 28 percent of the gap between the existing rate and the cost-based rate, which demonstrates the application of the ratemaking principle of gradualism to this issue.³² This amount is a target percentage within a range, not an arbitrary amount; the goal is to close between one-fourth and one-third of the gap between current rates and cost-based rates.³³ The proposal to increase the Customer Charge will also reduce rate volatility in months when billing demands are high, but overall energy sales are low.³⁴ Finally, the increase to the fixed charge must not be considered in isolation; it is the overall increase to member bills that drives the reasonableness of the proposed rates.

Meade County also expects that cost increases will only continue in the future; such increases, when coupled with revenue uncertainty related to the COVID-19 pandemic, could adversely impact margins and will make the requested rate revisions even more important for Meade County's financial health.³⁵

³⁰ See Meade County's Response to AG-DR-01-005.

³¹ See Wolfram Testimony, p. 24.

³² See *id.*, p. 26.

³³ See Wolfram Testimony, p. 26.

³⁴ See Meade County's Response to Staff-DR-01-002.

³⁵ See Meade County's Response to AG-DR-01-004.

We acknowledge the impact electric rates have on our member-owners, but our cooperative began preparation to mitigate the organization's revenue deficiency well before the COVID-19 pandemic became a reality in Kentucky. Presently, Meade County like other businesses and residential members are experiencing similar hardships during this turbulent period. For that reason, foregoing a revenue adjustment at this time would only harm Meade County's financial and operational performance thus impairing the ability to safely serve our member-owners at satisfactory levels. To ensure a financially healthy electric distribution cooperative remains intact to uphold its mission of providing safe, reliable and affordable power, it is imperative that Meade County be allowed to seek the moderate revenue adjustment set forth in its application. Also, with respect to the Kentucky Public Service Commission and the Kentucky Attorney General's office, we are of the opinion it would be in the best interest of all parties to proceed with this request to avoid potential congestion resulting from financial impacts related to the current state of emergency. Fortunately, Meade County has been positioned to provide its member-owners a monthly bill credit valued at over \$40 million in the last decade to offset increases associated with the cost in providing power. This bill offset will continue to help lower member-owner bills in the future as we anticipate growth in the Member Rate Stability Mechanism.³⁶

In summary, Meade County's proposal is fair, just and reasonable both in regard to the amount of the revenue request and the rate design. Meade County is grateful to the Commission for allowing this case to proceed under the streamlined rate case procedures and appreciates the AG's constructive participation in the case. For the reasons set forth above, Meade County respectfully requests the Commission to approve its Application and authorize the new rates.

³⁶ See Meade County's Response to AG-DR-01-009.

This 30th day of July 2020.

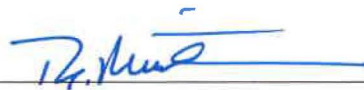
Respectfully submitted,

A handwritten signature in blue ink, appearing to read "T.C. Brite", with a long horizontal flourish extending to the right.

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CERTIFICATE OF SERVICE

This is to certify that the foregoing electronic filing is a true and accurate copy of the document being filed in paper medium; that the electronic filing was transmitted to the Commission on July 30, 2020; that there are currently no parties that the Commission has excused from participation by electronic means in this proceeding; and that a copy of the filing in paper medium will be hand delivered to the Commission within thirty (30) days of the end of the current state of emergency.



*Counsel for Meade County Rural Electric
Cooperative Corporation*